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August 27, 2008

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The Honorable Charles D. Nottingham
Chairman
Surface Transportation Board
395 E Street, SW
Washington, DC 20423

Dear Mr. Chairman,

This letter responds to your July 25, 2008 letter requesting information on CN's service plans for the remainder of the year and capital-related information related to CN's operations.

CN Operations and Service Plans

CN Operations. CN's operations continue to be guided to by the precision railroading concept. CN operates regularly scheduled trains that leave at predetermined times. We handle individual car movements according to a specific plan where possible to meet agreed-upon commitments to our customers. CN is consistently seeking to improve the speed, efficiency, and reliability of our operations, to ensure the best possible service to our customers.

Earlier this year, we experienced challenges with extremely cold weather in much of Canada and in Wisconsin, Minnesota, and Michigan, as well as heavy rainfall and flooding in Illinois and Iowa. In addition to the two Arctic outbreaks in Canada in January and February and heavier than normal snowfalls in many parts of Canada, as well as in Chicago and in Wisconsin, southern Illinois experienced torrential rain in March, which led to record flooding of rivers in the area. We also experienced severe weather in January and February in the lower and middle Mississippi River Valley.

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At present, however, overall operations are fluid and we are successfully meeting our customers' needs. Business volumes overall this year have not shown strong growth due to weakness in the U.S. economy generally, but we are hopeful that business prospects and CN volumes will improve during the balance of 2008 and into 2009.

Flooding Impacts. Severe flooding in Iowa this year affected CN operations in the Cedar Rapids area. Service disruptions occurred beginning on June 9, while water levels were above our rails. All washouts and bridges were repaired and in service by June 17. Our only ongoing issue is with a short-line railroad that remains out of service at Cedar Rapids, requiring us to interchange cars to another rail carrier. Otherwise, our service in the area is back to normal.

Peak Shipping Season Demands. Our scheduled railroad operating plan accommodates anticipated seasonal changes in business and can accommodate other business changes that may occur. As a result, we do not make structural changes to our operations on a seasonal basis. Rather, we make adjustments based on changes in customer forecasts throughout the year. This proactive approach to meeting customer needs is particularly important in today's volatile environment.

Performance Goals. CN has been operating this year at a high level of efficiency, with our trip plan compliance in the Southern Region (which includes our U.S. operations) at 86 percent year-to-date through July 2008, compared to 92 percent for the same period in 2007; this decline was due to the weather problems we experienced during the first four months of 2008. Performance has improved steadily since that time, with Southern Region trip plan compliance at 91percent for the month of August 2008 to date. We expect to continue to achieve excellent trip plan compliance in the Southern Region and throughout our system for the remainder of the year.

CN continues to seek ways to enhance operating fluidity on CN's network and throughout the North American rail system. As I have reported previously, CN has reached various routing protocol agreements with our U.S. interline partners as well as co-production agreements. These agreements improve operating efficiency and service by optimizing the use of current industry infrastructure and are continuing to prove very successful in maximizing the efficient use of industry capacity.

Our cross-border operations are an essential component of our business. We work closely with U.S. Customs and Border Protection (CBP), the Canada Border Services Agency (CBSA), and other agencies to address their security issues while also ensuring a smooth flow of traffic to the maximum extent possible given security considerations. We continue to participate in CBP's Customs-Trade Partnership Against Terrorism (C-TPAT) and CBSA's Partners-in-Protection (PIP) programs.

As in previous years, however, we remain concerned about the fluidity of the rail network due to congestion at certain gateways, particularly in Chicago. To enhance the efficiency of CN's rail operations through Chicago, as well as to reduce rail congestion generally in the region, CN announced in September 2007 our agreement with United States Steel Corporation under which CN would acquire the major portion of the Elgin, Joliet & Eastern Railway Company (EJ&E). This acquisition, which currently is under consideration by the Board, would enable CN to divert the majority of our current trains that operate through downtown Chicago to the less congested, underutilized EJ&E line. We are hopeful that the STB will soon render a decision in this proceeding that will enable CN to make these important efficiency enhancements.

CN remains a strong supporter of the CREATE public/private infrastructure program, but recognizes that CREATE's congestion-reducing goals will not be realized for many years due to continued funding uncertainties. We are hopeful that Congress will include meaningful funding for CREATE in the next surface transportation reauthorization legislation.

With respect to employment levels, CN currently has a total of 5,631 employees in place in the U.S. portion of CN's Southern Region, 2,477 of whom are train and engine service employees. We have recently examined our staffing needs and, based on current business forecasts, we are confident that our employment levels will be sufficient to ensure safe and efficient operations and meet our customers' service needs.

Customer Communications. CN provides a variety of e-business tools to assist customers in ordering cars and tracking shipments. In addition, CN Account Managers and Customer Support Representatives communicate routinely with our customers by phone, fax, and e-mail. In addition, we send a State of the Railroad e-mail to customers who subscribe to this service, and James Foote, CN's Executive Vice-President – Sales & Marketing, sends mail and e-mail communications on major issues.

In the event of shipment disruptions, we quickly alert customers of service issues by e-mail and by posting the information on the CN website. Should local service issues arise, they are handled at the Transportation Service Centers throughout our network. If issues cannot be resolved there, they are then escalated within the company.

Capacity and Infrastructure

CN is fortunate to not have major congestion or capacity issues on our route network, other than the serious issues we and the rest of the railroad industry face in Chicago. As noted above, we are hopeful that the STB will approve our proposed EJ&E acquisition, which will enable CN to comprehensively address our major congestion and capacity challenge. In addition to rerouting of CN trains out of downtown Chicago, CN plans to spend \$100 million to enhance capacity along the EJ&E line.

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With respect to our infrastructure and capacity generally, CN continues to have an aggressive capital-spending program, aimed at ensuring that our infrastructure is sufficient to meet customers' expectations. In 2007, our system-wide capital expenditures totalled C\$1.7 billion; excluding a C\$90 million capital lease for the Montreal Central Station, the capital spending was about C\$1.6 billion. We anticipate capital expenditures of approximately C\$1.5 billion in 2008, with more than US\$300 million of this spending to occur in the United States. Major categories of infrastructure expenditures include the replacement of rail, ties and other track materials, and improving bridges as well as siding extensions. Of particular note is our \$100 million rebuilding and upgrading of our Johnston yard freight switching facility in Memphis, which will be completed in early 2009. Our equipment capital expenditures are expected to reach roughly C\$140 million and include the acquisition of new fuel-efficient locomotives as well as improvements to the existing locomotive and freight car fleets.

We are in the process of finalizing our spending targets for 2009, and we plan to continue our significant investments in a sustainable manner.

CN appreciates the opportunity to provide information on our service and infrastructure. I would be pleased to provide any additional information that the Board may require on these issues.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Hunter Harrison', with a long, horizontal flourish extending to the right.

E. Hunter Harrison
President and
Chief Executive Officer

cc: Vice Chairman Mulvey
Commissioner Buttrey